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UNFPA – Report of the Advisory Committee on Administrative and Budgetary Questions on UNFPA regionalization

UNITED NATIONS POPULATION FUND

REPORT ON UNFPA REGIONALIZATION: TOWARDS A STRONGER FIELD-CENTRED AND RESULTS-ORIENTED ORGANIZATION

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director on regionalization of the United Nations Population Fund: towards a stronger field-centred and results-oriented organization (DP/FPA/2007/2). During its consideration of the report, the Advisory Committee met with the Executive Director and other representatives, who provided additional information and clarification.

2. The Advisory Committee notes from paragraphs 16-19 of the report that the concept of regionalization is not new to the Fund. The UNFPA technical support system, established in 1992, was a precursor of efforts to access the capacities of the United Nations system at regional and subregional levels to support country-level development initiatives, as called for in paragraph 76 of General Assembly resolution 59/250. In 2001, the Fund launched a comprehensive transition process to strengthen its field operations, adopting a new strategic direction and placing field activities at the centre of its operations.

3. As further indicated in the report, the regionalization would utilize existing organizational units, reporting lines and managerial authority, and not create additional bureaucracy or reporting layers. The objectives of the regionalization are indicated in paragraph 4 of the report.

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4. As indicated in paragraph 46 of the report, the proposed regionalization model would be composed of four regional offices, five subregional support offices and five area offices, as follows:

(a) Regional offices: Cairo (Egypt), Addis Ababa (Ethiopia), Panama City (Panama) and Bangkok (Thailand);

(b) Subregional support offices: Suva (Fiji), Kingston (Jamaica), Kathmandu (Nepal), Dakar (Senegal) and Pretoria (South Africa);

(c) Area offices: Tirana (Albania), Almaty (Kazakhstan), Muscat (Oman), Bucharest (Romania) and Ankara (Turkey).

5. The Advisory Committee was informed that the Executive Board would discuss the UNFPA regionalization proposal in January 2007. Contingent upon Board approval, preparations would then be undertaken during 2007 and regionalization would commence in 2008. The Committee recalls its previous report on UNFPA (DP/FPA/2005/14) and notes that the current report was produced by the Fund with the support of consultants. The Advisory Committee commends the Fund for its plan and initiative but notes that the regionalization plan needs to be refined as a number of aspects require further in-depth study before a final proposal can be considered. In this context, the Committee recalls that it was informed in 2005 that various options for regionalization would be considered (DP/FPA/2005/14, paragraph 16; see also DP/FPA/2005/13, paragraph 10 (f)). At this stage of the process, the above-mentioned report presents one option.

6. The proposal outlines a general strategic vision and broad organizational restructuring and resource requirements; however, it does not address how and if countries in need of UNFPA support would benefit from regionalization. Upon inquiry, the Committee was informed that the regional and subregional resource requirements were preliminary and indicative. The Committee is of the view that the policy and resource requirements, both post and non-post, should be more specifically addressed and recommends that this matter be revisited. Furthermore, the Committee believes that regionalization should be considered in the context of overall United Nations reform and specifically in the light of such decisions as may be taken with respect to the concept of one United Nations at the country level. The Advisory Committee encourages UNFPA to profit from lessons learned on regionalization by other United Nations entities.

7. Several initiatives for 2008-2011 are currently under way and are being prepared for presentation to the Executive Board, namely: (a) the Enterprise Resource Planning system (Atlas); (b) the medium-term strategic plan, which will replace the multi-year funding framework; (c) a review of the global country and regional framework; and (d) a review of technical assistance programmes. The Advisory Committee believes that the regionalization concept of the Fund would greatly benefit from an integrative and comparative approach that would incorporate concurrent time lines and overall costs and benefits, with particular emphasis on operational results and transparency for both recipient and donor countries. The Committee also believes that the sequence of activity could be reconsidered and that the proposal ought to be

examined in the context of the above-mentioned exercises in order to avoid prejudging the decisions of the Executive Board.

8. With regard to the proposed structure, the Advisory Committee was informed, as noted above, that no additional administrative layers would be added to the overall structure of UNFPA. However, a review of the organizational charts included with the proposal showed that the level and number of posts in the areas of management, administration and support are relatively high. The Advisory Committee believes that the proposed organizational arrangements should be re-examined with a view to streamlining structures and reporting lines.

9. The Advisory Committee notes that the regionalization plan would also call for the creation of posts at headquarters. The Committee points out that any new headquarters posts should be fully justified and in the 2008-2009 budget proposal.

10. With regard to resource requirements, the report states that the estimated yearly recurrent cost to the biennial support budget of $5 million would constitute approximately 4.8 per cent of the annual budget, calculated on the basis of the gross biennial support budget appropriations of $209 million for the 2006-2007 biennium, or approximately 1 per cent of the total regular, or core, UNFPA resources.

11. Further, paragraph 73 of the report indicates that one-time costs are estimated at $28.3 million; of this amount, $14 million would be required by the end of the first quarter of 2007. An estimated amount of $13.9 million would be required for the set-up of regional offices and subregional support offices and $14.4 million for costs related to staff termination, relocation and other non-salary staff costs, such as those for consultants and personnel-related activities associated with the implementation of regionalization. Proposals related to the termination of staff should be submitted in the 2008-2009 budget. Upon enquiry, the Committee was informed that the Executive Director was not seeking an increase of the biennial support budget for 2006-2007.

12. Taking into account its comments above, the Advisory Committee encourages the Fund to review the current proposal and to further develop and refine its regionalization concept and plan in consultation with other United Nations entities. The Committee asks the Fund to broaden the scope of geographical, administrative and financial options presented to the Board and to include in its proposal measures to enhance accountability and oversight.

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Report on the implementation of the International Public Sector Accounting Standards*

Summary

When the United Nations system accounting standards were first developed, international accounting standards for not-for-profit organizations did not exist. Because of this gap, the United Nations Board of Auditors recommended that the United Nations system develop its own accounting standards. Since then, the International Public Sector Accounting Standards (IPSAS) have been developed for not-for-profit public sector organizations. IPSAS are a set of high-quality, independently developed accounting standards that require accounting on a 'full accrual" basis, which is considered the best accounting practice by international organizations for the public sector. IPSAS also includes requirements and guidance for financial statement consistency and comparability. This paper highlights the position of the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Office for Project Services (UNOPS), the United Nations Capital Development Fund (UNCDF) and the United Nations Development Fund for Women (UNIFEM) in regards to IPSAS adoption.

Introduction

1. The General Assembly, in its resolution 60/1 of 16 September 2005, requested the Secretary General to take a number of actions for strengthening the United Nations in the context of Secretariat and management reform. The General Assembly report entitled *Investing in the United Nations for a stronger Organization worldwide: detailed report*

* The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

(A/60/846/Add.3) of 12 May 2006 proposes that the United Nations adopt IPSAS for its financial statements and that the General Assembly endorse United Nations system-wide adoption of IPSAS by 2010. Through its resolution 60/283 of July 2006, the General Assembly decided to approve the adoption by the United Nations of the International Public Sector Accounting Standards.

2. The United Nations Board of Auditors and the Specialized Agencies also supported the adoption of IPSAS.

3. UNDP, UNFPA and UNOPS believe that the adoption of IPSAS will:

(a) support more effective use of the financial and human resources;

(b) improve the extent to which financial policies, regulations and rules, business practices and procedures respond to the needs of the organization;

(c) take into account measures for the reform of human resource management and the budgetary process;

(d) provide a consistent, comparable and harmonized platform of United Nations system financial reporting and will facilitate the transition to the joint office concept; and

(e) allow easier adoption of, and maximum benefit from, changes to the Atlas system.

I. Current accounting standards

4. The United Nations system organizations, including UNDP, UNFPA, the United Nations Office for Project Services (UNOPS), the United Nations Capital Development Fund (UNCDF) and the United Nations Development Fund for Women (UNIFEM), collectively referred to as the Atlas partner-agencies, currently operate in accordance with United Nations System Accounting Standards (UNSAS). The UNSAS were developed to provide a consistent application of accounting principles and standards across the United Nations system. Over time, however, UNSAS has not been able to keep pace with changing accounting developments or the accounting methodologies used throughout the United Nations system.

5. Based on a review sponsored by the High-Level Committee on Management (HLCM), and after reviewing a number of other international accounting standards, the Task Force on Accounting Standards recommended that the United Nations system adopt IPSAS. The recommendation was also endorsed by the Finance and Budget Network and in November 2005 the High Level Committee on Management accepted the recommendation that the United Nations system adopt IPSAS (CEB/2005/HLCM/R.25). It should be noted that the first set of IPSAS-compliant financial statements will be available for the year ending 31 December 2010.

II. Adoption of IPSAS

6. The General Assembly report entitled *Investing in the United Nations for a stronger Organization worldwide: detailed report* (A/60/846/Add.3) of 12 May 2006 states, "IPSAS are credible, high-quality, independently produced accounting standards, underpinned by a strong due process and supported by Governments, professional accounting bodies, and international development organizations such as the International Organization of Supreme Audit Institutions (INTOSAI), the Organization for Economic Cooperation and Development (OECD) and the World Bank." The standards represent international best practices for public sector and not-for-profit organizations accounting.

7. The adoption of IPSAS standards by the United Nations system will improve the quality and comparability of financial information across the system itself. Adopting IPSAS standards should produce a level of standardization or harmonization of financial regulations and rules, business practice policies and procedures, and financial statement presentation. Local governments are also implementing IPSAS, which would create synergy between the United Nations organizations and governments with regard to donor reporting.

8. IPSAS standards deal with financial reporting under a cash or accrual basis of accounting. Atlas partner-agencies will therefore have to change from a modified accrual method of accounting, as practiced under UNSAS, to a full accrual method of accounting. For expenses, the modified accrual method records and reports expenses based on the approval of purchase orders, while the full accrual method records expenses based on the delivery of goods and/or services. The full accrual method is considered the best accounting practice by international organizations for the public sector. This may have an impact on expenditure reporting in the first year of the IPSAS implementation, but it will even out over the biennium.

9. There are 21 IPSAS standards to be reviewed and considered for adoption. The accounting treatment and reporting of various items will change as IPSAS standards are adopted. Some of the major changes deal with treatment of:

(a) Property, plant and equipment (fixed assets);

(b) Inventory;

(c) Presentation of financial statements;

(d) Full recognition of liabilities for employee benefits (after service health insurance (ASHI), leave balance);

(e) Effects of changes in foreign exchange rates; and

(f) Revenue recognition as it applies to revenue from non-exchange transactions.

10. Consequently, the adoption of IPSAS standards will result in a review of and possible changes to Financial Regulations and Rules, the internal control framework, other policies and procedures manuals, and

the Atlas system configuration. The planned changes to Atlas will be directly affected by decisions coming out of the IPSAS adoption project[1]. IPSAS adoption will also have budget and funding implications. For example, IPSAS will require a full statement on budget performance, which may impact the basis of budgeting, as well as the issue of funds availability and funds requirements with respect to accrued staff entitlements – including After-Service Health Insurance payments. While IPSAS does not require issuance of annual audited financial statements, it is considered a 'best practice', and hence the issue of annual rather than biennial external audits will need to be evaluated and addressed.

11. The Atlas partner-agencies are already working together on IPSAS adoption. It should be noted that UNDP and UNFPA comptrollers, as part of the United Nations Development Group (UNDG) Executive Committee, are also currently engaged in an exercise to harmonize their Financial Regulations and Rules, accounting policies and procedures for similar business processes, initially with the United Nations Secretariat and other UNDG agencies. That work will eventually contribute toward a similar initiative coordinated by HLCM Finance and budget network task force for all United Nations organizations.

12. Inevitably, there will be underlying costs, both one-time and recurring, which will be part of the IPSAS adoption process. Although not all costs have yet been identified, they could be expected to include: additional internal and external resources to staff working groups or testing teams; development of harmonized regulations, rules and procedures; reconfiguration of the Atlas system to accommodate IPSAS; purchase of additional system modules; staff training cost; reports development costs; and the additional cost of an annual external audit, if adopted. In addition, the disclosure requirements of IPSAS are rigorous and extensive in comparison to UNSAS, and this will require additional capacity both at country offices and headquarters.

III. Implementation and early adoption

13. IPSAS adoption is a major change that will require significant investment in people, information systems, project management, communications, training and testing. The Atlas partner-agencies are expected to be fully IPSAS-compliant by 2010. The IPSAS implementation is being set up as a programme including three projects: accounting policies and procedures, reporting, and changes to Atlas financials.

14. It should be noted that there are planned changes to Atlas. Other system-related installations that may be affected by IPSAS adoption are: enterprise performance management; current reporting modules (including the statutory reports facility); budgeting and scorecard analytics; human

[1] The IPSAS adoption project involves the analysis, development, testing and evaluation of new processes, policies, manuals, procedural guidance and system changes, and staff training resulting from the movement from UNSAS to IPSAS.

capital management; and payroll. It is also possible that new Atlas modules may have to be purchased to support IPSAS standards.

15. The process of moving from the current accounting standards to IPSAS will involve a multi-layered fit/gap analysis of current business processes and accounting treatment, expected IPSAS business process and standards, system solutions and configuration changes, and revisions to policy and procedures documents and manuals.

16. As the project moves forward, it is the intent of UNDP and UNFPA to inform the Executive Board, through regular progress reports, of changes to Financial Regulations and Rules, firm adoption deadlines, the effects on current business practices, and task-related costs.

17. While IPSAS will drive a level of harmonization that will significantly contribute towards several United Nations reform initiatives it represents, nevertheless, a challenge for the United Nations system.

IV. Benefits of IPSAS adoption

18. As stated in the General Assembly document A/60/846/Add.3, the benefits of IPSAS adoption include:

(a) Improved internal control and transparency with respect to assets and liabilities generally;

(b) The alignment of United Nations accounting with best accounting practices through the application of credible, independent accounting standards on a full accrual basis;

(c) More comprehensive information about costs that will better support results-based management;

(d) The integration of non-expendable equipment into the accounting system, with resulting improvements in the accuracy and completeness of non-expendable equipment records; and

(e) Improved consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard.

Recommendation

19. The Executive Board may wish to take note of the fact that, in accordance with General Assembly resolution 60/283, UNDP, UNFPA and UNOPS will fully comply with IPSAS requirements effective from the financial year beginning 1 January 2010.